

ENVIRONMENTAL IMPROVEMENT FUND

Budget Summary							
Fund	2014-15 Base Year Doubled	2015-17 Governor	2015-17 Jt. Finance	2015-17 Legislature	2015-17 Act 55	Act 55 Change Over Base Year Doubled Amount	Percent
GPR	\$77,649,000	\$41,657,600	\$41,657,600	\$41,657,600	\$41,657,600	- \$35,991,400	- 46.4%
SEG	<u>16,000,000</u>	<u>16,000,000</u>	<u>16,000,000</u>	<u>16,000,000</u>	<u>16,000,000</u>	<u>0</u>	0.0
TOTAL	\$93,649,000	\$57,657,600	\$57,657,600	\$57,657,600	\$57,657,600	- \$35,991,400	- 38.4%
BR		\$7,500,000	- \$230,900,000	- \$230,900,000	- \$230,900,000		

FTE Position Summary
Positions for the Environmental Improvement Fund program are provided under the Departments of Administration and Natural Resources.

Budget Change Items

1. BONDING AUTHORITY [LFB Papers 280 and 281]

	Governor (Chg. to Base)	Jt. Finance/Leg. (Chg. to Gov)	Net Change
BR-GO	\$7,500,000	- \$56,200,000	- \$48,700,000
BR-REV	<u>0</u>	<u>- 182,200,000</u>	<u>- 182,200,000</u>
Total BR	\$7,500,000	- \$238,400,000	- \$230,900,000

Governor: Provide an increase in general obligation bonding authority of \$7,500,000 for the safe drinking water loan program within the environmental improvement fund. State general obligation bonds are issued to pay for the 20% state match to the federal capitalization grant for the safe drinking water loan program. No new bonding authority would be provided for the clean water fund program.

The clean water fund program provides low-interest loans to municipalities for planning,

designing, constructing or replacing a wastewater treatment facility, or for nonpoint source pollution abatement or urban stormwater runoff control projects. The safe drinking water loan program provides financial assistance to municipalities for the planning, design, construction, or modification of public water systems.

Joint Finance/Legislature: Provide the following changes in bonding authority: (a) reduce clean water fund general obligation bonding authority by \$54.1 million; (b) reduce clean water revenue obligation bonding authority by \$182.2 million; and (c) reduce safe drinking water loan program general obligation bonding authority by \$2.1 million. The bonding authority amounts are shown in the following table.

Environmental Improvement Fund (EIF) Bonding Authority

	<u>Current</u>	<u>Governor</u>	<u>Jt. Finance/Leg.</u>	<u>Total</u>
Clean water fund program -- general obligation	\$740,843,200	\$0	-\$54,100,000	\$686,743,200
Safe drinking water loan program -- general obligation	<u>60,200,000</u>	<u>7,500,000</u>	<u>-2,100,000</u>	<u>65,600,000</u>
Subtotal General Obligation Bonding	\$801,043,200	\$7,500,000	-\$56,200,000	\$752,343,200
 Clean water fund program -- revenue obligation	<u>2,708,900,000</u>	<u>0</u>	<u>-182,200,000</u>	<u>2,526,700,000</u>
 Total Bonding Authority	\$3,509,943,200	\$7,500,000	-\$238,400,000	\$3,279,043,200

[Act 55 Sections: 868q, 869, and 4152m]

2. DEBT SERVICE REESTIMATE [LFB Paper 175]

GPR	- \$35,991,400
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Governor/Legislature: Decrease funding by \$15,882,700 in 2015-16 and by \$20,108,700 in 2016-17 to estimate GPR debt service costs on state general obligation bonds and commercial paper debt issued for the environmental improvement fund. This would include: (a) -\$16,168,800 in 2015-16 and -\$20,442,900 in 2016-17 for the clean water fund program; and (b) \$286,100 in 2015-16 and \$334,200 in 2016-17 for the safe drinking water loan program. Actual and estimated debt service payments from 2012-13 through 2016-17 are shown in the table. The administration indicates the GPR debt service reductions in the clean water fund will result from restructuring the loan portfolios. Clean water fund program general obligation bond debt service is also paid from a sum certain SEG appropriation that receives a portion of loan repayments from municipalities from loans that were originally provided from the proceeds of general obligation bonds. The land recycling loan program is funded from clean water fund loan repayments of loans that were originally made with the proceeds of federal grants, and does not have a separate general fund debt service cost.

Environmental Improvement Fund Debt Service Expenditures

	<u>GPR Clean Water Fund Program</u>	<u>SEG Clean Water Fund Program</u>	<u>Safe Drinking Water Loan GPR</u>	<u>Total</u>
2012-13 Actual	\$34,302,000	\$8,000,000	\$4,446,000	\$46,748,000
2013-14 Actual	32,347,800	8,000,000	5,139,700	45,487,500
2014-15 Base	33,590,500*	8,000,000	5,234,000	46,824,500
2015-16 Bill	17,421,700*	8,000,000	5,520,100	30,941,800
2016-17 Bill	13,147,600*	8,000,000	5,568,200	26,715,800

*The administration expects that use of program reserves or future program restructuring will result in an approximately \$13 million reduction in 2014-15 GPR debt service costs (to \$20.6 million), and in the GPR cost reductions reflected in the bill.

3. PROGRAM STRUCTURE CHANGES [LFB Paper 281]

Governor: Make the following changes in the structure of the environmental improvement program:

a. Eliminate the present value subsidy limit. Currently, the statutes provide a financial control mechanism for the clean water fund, safe drinking water loan, and land recycling loan programs called a "present value subsidy limit." This limit is a means for the Legislature to control the commitment of state financial assistance to municipalities in a biennium. The subsidy limit represents the estimated state cost, in today's dollars, to provide 20 years of state subsidy for the projects that would be funded in the biennium, that is, for the state to pay the difference between the actual low-interest state loan and a market rate loan. The 2013-15 biennial budget authorized a present value subsidy limit of \$89.1 million for the environmental improvement program for the 2013-15 biennium, including: (1) \$61.9 million for the clean water fund program; (2) \$26.9 million for the safe drinking water loan program; and (3) \$0.3 million for the land recycling loan program.

b. Repeal the definition and use of the term "subsidy." Specify that DOA would allocate "financial assistance" to projects instead of "subsidy." Subsidy is currently defined as the amounts provided from the environmental improvement fund to clean water fund, safe drinking water loan, and land recycling loan program projects for the following purposes: (1) to reduce the interest rate of project loans from the market rate to a subsidized rate; and (2) for the clean water fund program only, to provide for financial hardship assistance, including grants.

c. Specify that, under the clean water fund program, no municipality may receive more than 35.2% of the amount that DOA projects will be available to provide financial assistance for the biennium. This would replace the requirement that no municipality may receive more than 35.2% of the present value subsidy limit approved by the Legislature for the biennium.

d. Specify that, under the safe drinking water loan program, no municipality may receive more than 25% of the amount of financial assistance planned to be provided or committed for projects for the biennium. This would replace the requirement that no municipality may receive more than 25% of the present value subsidy limit approved by the

Legislature for the biennium.

e. Specify that the program may expend, for clean water fund financial hardship assistance, up to five percent of the amount available to provide financial assistance for projects, instead of up to five percent of the amount of present value subsidy limit approved by the Legislature.

f. Maintain the current definition of "market interest rate" as the effective interest rate on a fixed-rate revenue obligation issued by the state to fund a loan under the program. Create an additional method for DOA to calculate a market interest rate for purposes of determining the interest rate for financial assistance loans provided under the program. The additional method would authorize DOA to determine that there has been a significant change in interest rates after the fixed-rate revenue obligation has been issued or if a fixed-rate revenue obligation has not been issued by the state to fund a loan under the program, the effective interest rate that DOA determines would have been paid if a fixed-rate revenue obligation had been issued on the date financial assistance is allotted. Delete from the calculation of market interest rate, the current references to variable rates.

g. Maintain the requirement that projects financed under the clean water fund program pay an interest rate of 75% of the market interest rate (other than projects that meet financial hardship criteria), and that projects financed under the safe drinking water loan program pay an interest rate of 55% or 33% of market interest rate.

h. Specify that if DNR and DOA determine that the amount available to provide financial assistance for projects under the clean water fund program for a biennium is insufficient to provide funding for all projects for which applications will be approved during the biennium, a funding list and priority ranking will be established. Currently, the funding list and priority ranking would be implemented if DNR and DOA determine that the amount of present value subsidy approved by the Legislature is insufficient. (The priority ranking has not been used since before a continuous funding cycle was enacted in 1995 Act 27.) Specify that if the priority ranking and funding list is implemented, it would rank projects of municipalities that submit financial assistance applications no later than September 30 of the fiscal year, rather than the June 30 preceding the fiscal year currently.

i. Specify that the biennial finance plan submitted by DOA and DNR by October 1 of each even-numbered year to the Building Commission, Joint Committee on Finance, and appropriate legislative standing committees shall include the total amount that DOA projects will be available to provide financial assistance during the next biennium. This would replace the requirement for the two agencies to include the total amount of financial assistance planned to be provided or committed for projects during the biennium.

j. Delete the requirement that the report submitted by DOA and DNR by November 1 of each odd-numbered year to the Building Commission, Joint Committee on Finance, and appropriate legislative standing committees must report on the implementation of the present value subsidy limit. Maintain the requirement for the two agencies to report on the operations and activities of the clean water fund program, the safe drinking water loan program, and the land recycling loan program.

k. Specify that if a land recycling loan recipient sells a site or facility for which the recipient received a loan under the program, if the sale proceeds are greater than the cost of the land plus the cost of the cleanup, the recipient must repay to DOA an amount equal to the remaining loan balance plus the lesser of: (1) 75% of the amount by which the sale proceeds exceed the cost of the land plus the cost of the cleanup; or (2) the difference between the amount of interest paid on the loan and the amount of interest that would have been paid if the loan had been made at the market rate. Condition (2) would replace the current requirement related to repayment of the amount of subsidy incurred for the project.

Joint Finance/Legislature: Approve the Governor's recommendation. In addition, increase the state subsidy for clean water fund projects by decreasing the municipal loan interest rate from 75% to 70% of the market interest rate. The change in the interest rate would first apply to projects for which financial assistance is allocated in the 2015-17 biennium.

[Act 55 Sections: 53, 4120 thru 4152, 4153 thru 4159, 4174 thru 4176, and 4179]

4. CLEAN WATER FUND ELIGIBILITY FOR CONNECTION LATERALS [LFB Paper 282]

Governor: Expand eligibility for financial assistance under the clean water fund program to include connection laterals or sewer lines if water other than wastewater is entering the connection laterals or sewer lines from the ground or from above-ground sources and is being transported from a nonindustrial structure in a way that may interfere with compliance with a publicly owned treatment work's compliance with a Wisconsin Pollutant Discharge Elimination System (WPDES) permit. Laterals are the portion of the sanitary sewer system that conveys sewage from an individual residence or establishment to a public sewage collection system. Laterals are generally privately owned and maintained. Examples of the type of connection lateral that would become eligible under the provision include: (a) portions of the Milwaukee area and some other municipalities where stormwater drains are connected to laterals that subsequently transport wastewater and stormwater from homes or other buildings to sewer lines in the street, sometimes known as combined sewers; and (b) areas of infiltration and inflow of water other than wastewater into leaking laterals, such as exist in many older developments.

Under the bill, the newly eligible connection laterals or sewer lines would be eligible for a loan interest rate of 75% of the market rate if the project is: (a) a compliance maintenance project to prevent a significant violation of an effluent limitation by a municipal sewage treatment facility; or (b) needed to achieve compliance with a new or changed effluent limitation established after May 17, 1988, if the project is for a municipality that is not a violator of the specific limit that is changing. The newly eligible connection laterals or sewer lines would be eligible for an interest rate of 100% of the market rate if it is a project to plan, design, construct or replace treatment works that violate effluent limitations contained in an existing permit.

Joint Finance/Legislature: Delete provision.

5. CLEAN WATER FUND ELIGIBILITY FOR UNSEWERED AREAS [LFB Paper 283]

Governor/Legislature: Expand eligibility for financial assistance under the clean water fund program to include projects in an unsewered municipality or an unsewered area of a municipality if DNR finds that at least two-thirds of the initial flow will be for wastewater originating from residences in existence for at least 20 years prior to the submission of the application to DNR for financial assistance. Currently, this type of unsewered area is eligible for financial assistance if two-thirds of the initial flow will be for wastewater originating from residences in existence on October 17, 1972. This provision would immediately expand eligibility for assistance at below market rates for municipal wastewater treatment facilities to certain unsewered communities constructed between 1972 and 1995.

[Act 55 Section: 4119]

6. SAFE DRINKING WATER LOAN ELIGIBILITY FOR CERTAIN PRIVATELY-OWNED SYSTEMS [LFB Paper 284]

Governor: Expand eligibility for financial assistance under the safe drinking water loan program to include private owners of a community water system or nonprofit noncommunity water system. A community water system is a public water system that serves at least 15 service connections used by year-round residents or that regularly serves at least 25 year-round residents. A noncommunity water system is a public water system that is not a community water system. A noncommunity water system is either: (a) a non-transient system which regularly serves at least 25 of the same persons over six months per year (including some schools, day care centers, and factories); and (b) a transient system which serves at least 25 persons per day at least 60 days out of the year (including some seasonal commercial establishments, restaurants, motels, and campgrounds).

Require that private owners of a community water system or nonprofit noncommunity water system would be required to: (a) demonstrate that there is adequate security for the repayment of the financial assistance; and (b) comply with the provisions of the federal Safe Drinking Water Act, state statutes, and the rules and regulations promulgated under the provisions that DNR specifies. [Local governments are currently required to comply with (b).] Private owners would not be required to comply with the following requirements that local governments are required to comply with under current law and the bill: (a) establish a dedicated source of revenue for the repayment of the financial assistance; (b) develop and adopt a water conservation program as required by DNR; (c) develop and adopt a program of systemwide operation and maintenance of the public water system, including the training of personnel, as required by DNR; and (d) develop and adopt a user fee system.

Joint Finance/Legislature: Approve the Governor's recommendations to: (a) expand eligibility for financial assistance under the safe drinking water loan program to include private owners of a community water system for a municipality; and (b) require that the private owners demonstrate that there is adequate security for the repayment of the financial assistance, and comply with the provisions of the federal Safe Drinking Water Act, state statutes, and the rules

and regulations promulgated under the provisions that DNR specifies. Delete the Governor's recommendation to expand eligibility to other private owners of a community water system or nonprofit noncommunity water system. In addition, prohibit DNR and DOA from awarding principal forgiveness to private owners of a community water system that serves a municipality.

[Act 55 Sections: 3918, 4160 thru 4168, 4170 thru 4175, 4177, 4178, and 4180 thru 4183]

7. SAFE DRINKING WATER LOAN PROGRAM SERVICE FEE

Governor/Legislature: Authorize the Department of Natural Resources and Department of Administration to establish by rule, and jointly charge and collect service fees for safe drinking water loan program applications, which cover the estimated costs of reviewing and acting upon the application and servicing the financial assistance agreement. Deposit any fees collected under the provision in the environmental improvement fund. The clean water fund program is currently authorized to promulgate rules to charge and collect service fees, but does not do so. The land recycling loan program is required to collect an annual service fee equal to 0.5% of the loan balance, and has collected \$547,100 between 1998 and 2014 related to nine financial assistance agreements that totaled \$13.5 million. No estimate of revenues is included in the bill.

[Act 55 Sections: 1023 and 4169]